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UBS

Global Research

1 August 2014

Wisconsin Energy Corp.
Polar Vortex, Summer Edition

Equities

Americas
Electric Utilities

12-month rating	**Neutral**
12m price target	**US$44.00**
	Prior: US$46.00
Price	**US$44.42**

RIC: WEC.N **BBG:** WEC US

Trading data and key metrics

52-wk range	US$48.95-39.62
Market cap.	US$10.1bn
Shares o/s	228m (COM)
Free float	100%
Avg. daily volume ('000)	455
Avg. daily value (m)	US$20.9
Common s/h equity (12/14E)	US$4.40bn
P/BV (12/14E)	2.3x
Net debt / EBITDA (12/14E)	3.5x

EPS (UBS, diluted) (US$)

	12/14E	
	UBS	**Cons.**
Q1	0.91	0.91
Q2E	0.52	0.58
Q3E	0.58	0.63
Q4E	0.62	0.57
12/14E	2.63	2.62
12/15E	2.68	2.71
12/16E	2.78	2.85

No major update on TEG acquisition; expect closing 2H15

As expected, no major updates on the details of the TEG acquisition. Expect filings at the federal level to be made before the end of August, and closing in 2H15. With the combination of WEC's cash flow and TEG's capital investment pipeline, we continue to see the deal as a strong strategic fit and estimate accretion may be worth ~$2/sh. We see further upside to our estimates from $47M of after-tax synergies (3% of combined O&M), or $0.15 EPS not yet baked in, potentially worth another ~$2/sh.

Super mild summer hits electric demand, but beats anyway; downbeat 3Q

WEC reported 2Q14 ongoing beat of $0.55 vs UBSe $0.52 and consensus $0.52, which excludes a $0.04 benefit from a Treasury Grant for the Rothschild biomass plant as well as a penny of TEG acquisition costs and gains on property sales. Exceptionally mild weather reduced results by only a penny despite a -1.3% YoY reduction in retail electric load (ex-mines), including -3.8% residential. Mgmt initiated 3Q guidance of $0.48-0.50 vs consensus $0.63, light due to expected continued mild weather as well as $0.02-$0.03 of delayed fuel recovery. The company reiterated unchanged 2014 guidance of $2.58 to $2.64 vs UBSe $2.63/consensus $2.62, excl TEG acquisition costs.

Contemplating ATC's ROE under a new construct could reduce EPS by -$0.04

As a result of the recent New England transmission ROE decision, the range of numbers discussed at FERC were 10.57% to 11.75%, lower than ATC's current 12.2%. At the low end, management estimated a -$0.04 impact to the combined WEC/TEG (with 60% combined ownership of ATC); most notably mgmt. stated it would not seek adders for RTO participation (+50bp) even if eventually cut (although this is likely just posturing in our view). As a reminder, there is no pending complaint against ATC's ROE (despite the broader generic MISO complaint, which is unrelated to ATC).

Valuation: Maintain Neutral, lower PT to $44– pricey shares, but synergy upside

On a pro-forma basis, we estimate a 14.9x 2016 P/E for WEC+TEG, implying a <5% premium, in-line with our valuation. Financial upside on the deal is at least ~$2/sh (~$0.14/sh accretion x 15x P/E x 5% discount).

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Highlights (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	4,486	4,246	4,519	4,638	4,707	4,796	4,884	4,973
EBIT (UBS)	887	1,000	1,032	1,063	1,102	1,129	1,157	1,186
Net earnings (UBS)	513	546	577	597	605	624	640	650
EPS (UBS, diluted) (US$)	2.18	2.35	2.51	2.63	2.68	2.78	2.86	2.92
DPS (US$)	1.04	1.20	1.45	1.56	1.64	1.76	1.88	2.00
Net (debt) / cash	(5,303)	(5,222)	(5,217)	(5,109)	(5,225)	(5,145)	(5,096)	(5,045)

Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	19.8	23.6	22.8	22.9	23.4	23.5	23.7	23.9
ROIC (EBIT) %	10.2	11.2	11.5	11.7	11.9	12.0	12.2	12.4
EV/EBITDA (core) x	10.3	10.1	10.4	10.4	10.1	9.9	9.6	9.4
P/E (UBS, diluted) x	14.3	15.8	16.5	16.9	16.6	16.0	15.5	15.2
Equity FCF (UBS) yield %	0.5	5.0	4.9	5.3	3.2	5.4	5.4	5.6
Net dividend yield %	3.3	3.2	3.5	3.5	3.7	4.0	4.2	4.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$44.42 on 30 Jul 2014 19:41 EDT

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Investment Thesis

Wisconsin Energy

12-month rating **Neutral**

12m price target **US$44.00**

Investment case

WEC continues to successfully act on its plan, with 4-6% targeted EPS growth, and has proposed projects, including Valley coal-to-gas conversion, Twin Rivers hydro rebuild, and gas expansion in Western WI. Going forward, the company will focus on smaller-scale infrastructure projects which should draw less scrutiny and be lower-risk. Government asset divestitures could be an additional catalyst in 2015, but the definite scale and form remains unknown aside from management's $200-250m capex placeholder. Share repurchases have also been a priority; however, management announced that it plans to suspend share repurchases while it is pursuing the ~$9Bn acquisition of Integrys. Our Price Target is derived by applying a 5% premium to the group regulated group P/E on 2016E EPS.

Upside scenario

The success of the projects mentioned with few cost overruns will be key in achieving the upside scenario, as well as the strategic deployment of capital. The target dividend payout ratio is 60% in 2014 and has been approved at 65-70%, thereby supporting high-single-digit dividend increases from 2015-2017 (revisions were discussed with the pending Integrys deal). Our upside case has WEC trading at a 10% premium to an appreciated (+1x P/E turn) peer group, and we believe management's guidance tends to be on the conservative side, which could further support upside to $49, which includes ~$2/sh accretion on a potential Integrys deal.

Downside scenario

A weak area for WEC has been electric volumes, and weather-normalized electric sales are forecasted to be flat (0.0-0.5%). If the company struggles, it could lose its premium (0%) to in a contracting group (-1x P/E turn) and have downside to $37 without the Integrys deal closing.

Upcoming catalysts

October 29	WEC 3Q14 Earnings Release
October 30	TEG 3Q14 Earnings Release
EOY 2014	Wisconsin Electric Power rate case decision (exp.)
January 2015	Peoples Gas Light and Coke rate case decision (exp.)
Summer 2015	Closing of the TEG transaction (exp.)

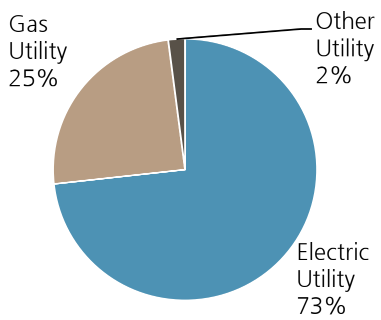
Business description

Wisconsin Energy Corporation (WEC) is a diversified holding company which conducts its operations primarily in two operating segments: a utility energy segment consisting of electricity and gas (Wisconsin Electric) and a non-utility energy segment (We Power). The electric and gas utility segment is WEC's major business, serving over 1.1 million electric and 1.1 million gas customers in Wisconsin and Michigan's Upper Peninsula. We Power was formed to design, construct, own and lease to Wisconsin Electric new generating capacity under the Power the Future strategy with visible earnings.

Industry outlook

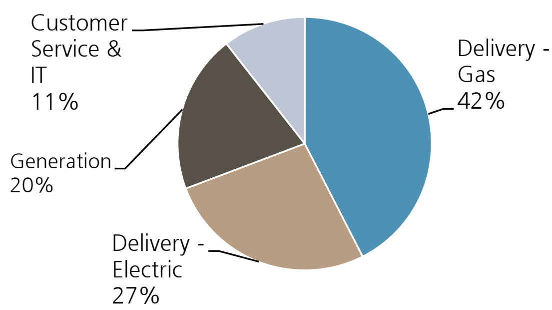
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited projected demand growth, growth of subsidized renewables, and potential for only modest further retirements. At regulated utilities, we believe rising interest rates and robust valuations are a challenge to the sector, particularly as earnings growth stalls once EPA-mandated growth capex slow mid-decade. We expect cost-cutting and strategic planning to be a key theme across both regulated and competitive companies, with M&A at modest (at best) premiums designed to extract cost synergies. We believe utilities with high parent leverage will disproportionately suffer, as they are unable to recoup from rising interest rates.

Operating Revenues by Segment (2015E)



Source: Company Filings and UBS Estimates

Capital Spending by Use (2015E)



Source: Company Filings and UBS Estimates

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The Power Line: 2Q earnings beat; maintains full year guidance

From both a strategic and financial accretion perspective, we remain constructive on WEC's proposed acquisition of TEG as we see a mutually beneficial marriage of strong cash flows from WEC's Power the Future program and the healthy capital spending needs of TEG's growing ratebase. While management talked down the possibility of placing ATC into REIT status, we see the potential upside as worthy of serious consideration despite the serial equity needs as there is now an established investor fan base for this type of vehicle (i.e., MLPs, Yieldcos, etc.). We continue to have strong confidence in WEC management to continue creating shareholder value but reiterate our Neutral rating considering the premium P/E multiple and deal risk currently present.

A cool July; and a mild August coming too

There have only been four Julys since 1960 that have been cooler than July 2014 and apparently August is forecast to be well below average temps as well. In 2Q14, mild weather reduced results by a penny, with residential electricity demand down 3.8% from 2Q13; small commercial and industrial demand was down 2.1% from 2Q13; but demand from large commercial and industrial customers – excluding the iron ore mines in Michigan's Upper Peninsula – was 2.1% higher. The company highlighted the uptick from industrial sales as the silver lining.

O&M costs down in 2Q; but expect back-end loaded O&M

O&M costs were down $14mn QoQ, mostly because of a lower medical, pension and other post-employment benefit costs as employees switched on Jan 1 to a high deductible plan. However, for the full year, higher medical expenses should be back-end loaded in 2H14.

Expect WEC-TEG acquisition closing 2H15; TEG prepares with sale of Retail

As expected, the WEC-TEG transaction is subject to approvals from the Federal Energy Regulatory Commission, the Federal Communications Commission, the Public Service Commissions of Wisconsin and Michigan, the Illinois Commerce Commission, and the Minnesota Public Utilities Commission. Filings are planned at the federal level before the end of August, with closing 2H15.

We continue to think that the acquisition of TEG looks to be a strong strategic fit given the existing transmission relationship, ownership of American Transmission Company (ATC), and the ability to merge a high-growth entity with a robust FCF generator, driving no incremental equity needs to deliver its targeted growth. Although at this stage we estimate the financial deal accretion of $0.14 is worth ~$2/sh, we see further upside to our estimates from $47M of after-tax synergies (3% of combined O&M), or $0.15 EPS not yet baked in, potentially worth another ~$2/sh. We do not think management will comment on possible synergies ahead of the state approval processes.

Retail Sale Executed at Depressed Multiple

We are not surprised to see the sale of TEG Retail to EXC at a very low implied ~2x EV/EBITDA.

As we conjectured and previewed, TEG announced the sale of its retail business to EXC for $60M, somewhat below our expectation of ~$25M EBITDA x 4 EV/EBITDA for $100M, but consistent with weak recent datapoints on retail. We view TEG's Midwest retail footprint as ideal to match Exelon's substantial length in the region. The business earned adjusted net income of ~$8Mn and ~$15Mn in 2012 and 2013, respectively, and management guidance for 2014 is ~$15Mn at the midpoint as well. We assumed that the unregulated business will continue to earn $15Mn annually, with $25M of EBITDA. We assume a reduction in WEC debt financing for the deal.

With many contracts seemingly 'out of the money' across many retail portfolios, we are not surprised to see this transaction at a very low implied 2.4X EV/EBITDA multiple. For comparison, NRG Energy acquired Dominion's unregulated retail electric business earlier this year for $165Mn at a 3-4x EV / EBITDA using management's guidance of $40-50Mn run-rate.

Majority Ownership in ATC: arguments against a REIT structure

As a result of the TEG acquisition, the combined company – Wisconsin Energy Group – will own ~60% interest in ATC, an electric transmission company with more than $3 billion in rate base. Management reiterated that it has not taken a decision either way in terms of a possible REIT structure – but did put forward some arguments against such a move, including the requirement to distribute ~90% of FCF back to investors, a potentially debilitating move requiring serial equity issuances given ATC's 10 year plan for investing $3-$3.6bn in the network.

As we stated in our latest ITC note, **'Putting a Cap on Returns'**, we continue to be bullish on transmission even after the returns cap imposed by the new FERC policy. On the call WEC management specifically called out their sensitivity of $0.04/sh for the combined entity at a 10.57% ROE. Also as we discuss with ITC, the potential to form a REIT with its transmission assets could be a potential catalyst for ATC after the deal closes. The question remains whether ATC could qualify for an independence adder (+100bp) on top of RTO adder (+50 bp) if it were to follow ITC's playbook as an independent TransCo eventually (we don't see WEC or other utilities poised to do so given their more limited growth opportunities elsewhere).

FERC sides with WEC customers on Presque Isle

Michigan gets the benefit of the SSR payments while Wisconsin had been bearing the burden. But no longer.

Just this week, FERC ruled in favor of WEC customers who had complained about $26M of costs related to out-of-market System Support Resource (SSR) payments made to keep the Michigan-based Presque Isle plant running for reliability. FERC agreed that the reliability benefits accrued to Michigan customers rather than Wisconsin ratepayers, who had been responsible thus far due to a quirk of MISO rules and the location of the plant within American Transmission Company's (ATC) footprint. The ruling will have no direct effect on WEC earnings (just who pays). With the recent Presque Isle RFP process drawing little/no bidding interest, we expect either a sale of the plant for negligible value, or early retirement (due to EPA rules) given the shopping of regional load. While the plant illustrates the issue with customer choice in Michigan, we remain focused on the transmission opportunities for ATC and ITC on the back of any eventual retirement.

Capital cost for MATS compliance on all five units is expected to be in the range of $6-12Mn if required to utilize dry sorbent injection (DSI) with the expectation that any environmental capex would be recoverable, just as the aforementioned SSR payments, as a requirement to operate the plant.

Will TEG acquisition impact the outcome for Presque Isle?

An interesting wrinkle in the entire Presque Isle debate relates to WEC's acquisition of Integrys as the cause of the SSR payments in the first place was the lost load when the local mining customers switched from WEC to Integrys. If and how this impacts the ultimate fate of the plant remains to be seen.

Asset privatization stays on the backburner ahead of election

What could happen to Wisconsin's "Crown Jewels"? Not much in 2014 it looks like.

On possible asset privatization, Governor Walker has authorized a sale and has selected an advisor to run the process; however, given that this is an election year, the earliest we see anything happening is 2015 as his opponents have long-seized the issue as a sale of Wisconsin's "Crown Jewels" for years. Nevertheless, we expect that should the sale happen, it would probably be financed in a way similar to Power the Future, with a long-term fixed-ROE contracts outside of ratebase that could last 20 years or more (but with a lower ROE in the ~10% range). We also note that the plants have been out of environmental compliance under University of Wisconsin ownership and would almost certainly need significant scrubber upgrades. Conversion to gas is probably a non-starter too as the plants are used for steam heating as well as electricity. While there has been no official cost estimate, we note that at times, unofficial 'swags' have been thrown around in the press in the neighborhood of $200-$250M.

Ratebase opportunity could be worth up to ~$1/sh.

More specifically, the budget grants the Building Commission with the authority to sell or lease state buildings (albeit with restrictions), subject to the approval of the Joint Committee on Finance. Currently the state is still in the process of retaining an advisor to oversee the process but it does not appear that significant progress has been made recently although selecting an advisor is certainly a step in the right direction. Additionally with competition for the assets among regional peers, it is unclear if WEC would be awarded all of the investment, at best representing ~$0.06 in EPS as calculated below. 'Ratebasing' these assets appear unlikely, but pre-arranged sales & PPA agreements back to the state will provide regulated-like returns. We look for more concrete details in the upcoming three-to-six months, as negotiation and RFP get under way including potential evaluation of JV structures with other potential owners in Wisconsin.

Figure 1: Potential EPS from WI Privatization if Ratebased

Wisconsin Privation Potential EPS	
Capex ($Mn)	$250
WI ROE	10.40%
Midpoint WI Equity Ratio	51%
Potential Earnings	13.26
Shares (2015E)	228.50
Potential EPS	$0.06

Source: Company Filings and UBS Estimates

Valley Power and Twin Falls on track; PRB coal blending test appears promising so far

Final Wisconsin PSC approval in March green-lights the Valley conversions.

The 280-MW Valley Power cogeneration coal-to-gas conversion project remains on schedule to finish the conversion of Unit 1 boiler in 2014 followed by Unit 2 in 2015 at a cost of $65-$70M excluding AFUDC. A related $30M pipeline connector upgrade is on time and on budget as well.

The $60-$65M Twin Falls hydro upgrade to build a new powerhouse and add spillway capacity is also on track, with major construction begun and a completion date later this year for operation in 2015.

In May 2013, the company received approval to test a blend of bituminous and PRB coals at Oak Creek; so far tests "appear promising". Given cost differentiation between the two, the company estimates that blending the two kinds of fuels can bring savings of $25-50mn to consumers. The company has already received environmental permits, and earlier this month filed a request with the Wisconsin Commission to approve $25mn additional capital spending for modifications at the plant that would allow testing of up to 100% PRB. However, for the plant to operate at more than 20% PRB on a sustained basis, additional capital spending would be required to expand fuel handling and storage.

Tight coal inventories – but not yet at levels requiring curtailment

While coal inventories are pretty tight – and not on track to improve to expected levels even by September, the situation is not yet tight enough for WEC to consider curtailment of coal-fired output. This is a situation we will continue to monitor- and relatively surprising given the exceptionally mild summer in our view. We emphasize datapoint continue to suggest deliveries will not be ameliorated until 2015

State Assets for Sale: mgmt. sees hometown competitive advantage

Despite our growing concern over peers entering the market to grab the state assets, mgmt. remains confident it has a real incumbent advantage in acquiring the assets, with the sales process to take into account the capabilities of any acquirer (effectively limiting the real competitors to WEC and LNT, with TEG now coupled with WEC)

Acquisition of TEG a good strategic fit

Mgmt estimates that 'TEG-tie' will drive EPS growth acceleration from 4-6% to 5-7% and 7-8% annual DPS growth based on an increased target payout ratio.

Wisconsin Energy made waves less than a month ago with its $9.1Bn ($5.8Bn deal price plus the assumption of $3.3Bn of debt – expected to close mid-2015 and be accretive in FY16) announced acquisition of Integrys Energy Group. The acquisition of TEG looks to be a strong strategic fit given the existing transmission relationship and ability to merge a high-growth entity with a robust FCF generator, with no incremental equity needs to deliver its targeted growth. We estimate the deal accretion is worth ~$2/sh which is the catalyst in our upgrade to Neutral. Furthermore, WEC's premium has contracted as of late and our pro-forma 2016E P/E multiple is 15.5x versus the group at 15.0x, largely consistent with our estimate of a 5% premium for shares. While the Illinois regulatory environment has improved of late with the passage of formula rates on both the gas and electric side, it remains unclear what WEC's new premium will be versus peers given its wider and more challenging geographic footprint. Additionally, with likely synergy upsides (mgmt. is likely coy to disclose savings ahead of state approval processes), we see further eventual upside risk to our estimates. On the next page we present our accretion math on the deal but for a more full analysis on the transaction please review our upgrade note **'TEG-Tie'**.

Figure 2: Detailed TEG Accretion Analysis

Integrys Transaction - Initial Accretion Analysis (Pro-Forma)				
Wisconsin Energy Corp - Legacy	**2013A**	**2014E**	**2015E**	**2016E**
Pre-Transaction Net Income ($Mn) - *UBSe*	577.3	597.1	605.2	624.2
Pre-Transaction Shares (Mn) - *UBSe, ex-repurchases*	229.7	227.6	227.6	227.6
Pre-Transaction EPS	**$ 2.51**	**$ 2.62**	**$ 2.66**	**$ 2.74**
TEG Adj. Net Income ($Mn) - FactSet	282.9	289.0	316.5	344.5
Less: Integrys Energy Services	15	15	15	15
Pro-Forma TEG Adj. Net Income ($Mn)	267.5	273.6	301.1	329.1
Synergies ($Mn) - *UBSe*	**"We did not base this transaction on synergies"**			
TEG Shares Outstanding (Mn)	79.96 **- WEC CEO Gale Kappa (6/23/14 Call)**			
Deal Terms				
Total Consideration per Share	**$71.47 (based on June 20 pricing)**			
Financing ($Mn): Total TEG Value per Share = $71.47				
Debt ($18.58 per TEG share)[1]		1,242.7	*TEG Shareholders Receive Cash*	
Equity (1.128 WEC shares per TEG share)		4,006.6		
Total		**5,249.3**		
Integrys Energy Services Value:				
Cash ($60Mn) + Net Working Capital ($183Mn)		$243 [1]	*Assumed offset to debt issuance*	
WEC Share Price (as of 7/31/2014)		**$44.42**		
Increase in Shares Outstanding (Mn)		**90.2**		
Combined Net Income ($Mn)		870.7	906.3	953.3
Incremental After-Tax Interest Expense ($Mn) at ~4%			31.5	31.5
Synergies *(Potentially $45Mn After-Tax)*			-	-
Pro-Forma Revised Combined Net Income ($Mn)			**874.8**	**921.8**
New Shares Outstanding			317.8	317.8
Pro-Forma Revised Combined EPS			**$ 2.75**	**$ 2.90**
*Change in EPS (Accretion/Dilution)**			**$ 0.09**	**$ 0.16**
% Change in EPS			*3.5%*	*5.8%*
**Note: The companies anticipate closing the deal in the summer of 2015. 2015 accretion is illustrative*				
P/E Multiples	**2013**	**2014**	**2015**	**2016**
WEC	17.7x	16.9x	16.7x	16.2x
TEG	15.4x	17.1x	15.8x	15.0x
Pro-Forma WEC + TEG (WEC at $44.42)			16.1x	15.3x
Regulated Average	*17.2x*	*16.5x*	*15.9x*	*14.3x*
TEG Takeout Implied P/E		19.2x	17.4x	16.0x
EV / EBITDA Multiples	**2013**	**2014**	**2015**	**2016**
WEC	10.3x	9.9x	8.8x	8.4x
TEG	13.8x	13.3x	12.3x	11.4x
Pro-Forma WEC + TEG			9.9x	9.4x
Regulated Average	*9.4x*	*9.1x*	*8.5x*	*8.0x*
Integrated Average	*10.2x*	*9.7x*	*9.2x*	*8.8x*

Source: Company Filings, UBS estimate, and FactSet

West Central gas lateral gets positive vote

PSC voted 2-1 in favor of ~$190Mn project but has not formally approved it yet

On June 25th the Wisconsin PSC voted to approve the 80-mile West Central gas lateral project, a decision earlier than expected given the uncontroversial route. All ten communities along the planned route have voted in favor of the $180-$194Mn project, which would be completed in 4Q15 pending approvals. The pipe is expected to alleviate propane shortages experienced in the region, especially this past winter. One commissioner voted against the project arguing that the project was expensive and would put unnecessary burden on consumer rates.

Valuation: Reduce PT $2 to $44 on multiple compression

Valuation is derived via a 2016E P/E basis with a 5% premium on core WEC earnings and a 5% discount for TEG accretion while the deal remains pending.

Figure 3: Wisconsin Energy Corp. Valuation

Wisconsin Energy Corp. Valuation: P/E Derived on 2016 EPS					
Downside Case		***Base Case***		***Upside Case***	
Valuation		**Price Target**		**Valuation**	
2016 EPS	2.78	2016 EPS	2.78	2016 EPS	2.78
P/E Multiple	13.3x	P/E Multiple	14.3x	P/E Multiple	15.3x
Premium	0%	Premium	5%	Premium	10%
Value	**$36.91**	**Value**	**$41.67**	**Value**	**$46.71**
**Base Case Price Target Rounded*					
Integrys Deal Accretion					
2016 EPS Accretion - UBSe	0.16	Accretion	0.16	Accretion	0.16
P/E Multiple	13.3x	P/E Multiple	14.3x	P/E Multiple	15.3x
Discount	-10%	Discount	-5%	Premium	0%
Value	**$1.89**	**Value**	**$2.15**	**Value**	**$2.42**
Official Price Target			**$43.82**		

Source: Company Filings, FactSet, and UBS Estimates

How about our pro-forma estimates?

We see the TEG transaction as immediately accretive to WEC shareholders, with Pro Forma accretion of $0.05 and $0.16 per share for 2015E and 2016E, respectively. Assuming a mid-2015 close we have reduced the 2015E accretion estimate in half. While our overall estimates are unchanged, we see reduced dilution from the recovery of $183M of working capital cash as a result of the sale of TEG's retail business (partially offset by the -$40M lower proceeds than we had been assuming before the sale announcement).

Figure 4: WEC EPS estimates, 2014E-2017E

	2013A	2014E	2015E	2016E	2017E
UBS estimates	$2.51	$2.63	$2.68	$2.78	$2.86
Prior *estimates*	$2.51	$2.63	$2.68	$2.78	$2.86
Consensus estimates	$2.45	$2.62	$2.70	$2.85	$2.96
Potential TEG Deal Accretion (~$0.08 FY15) - UBSe			*$0.05*	*$0.16*	
Pro Forma EPS			$2.72	$2.93	

Source: UBS estimates, FactSet, and Company Filings

How to think about the premium in the future?

We currently apply a 5% P/E premium to WEC (~0.75x P/E turn), which is down from the 10% we applied earlier this year. We believe this is appropriate given the strong appreciation of the group YTD as well as the elevated uncertainty associated with the pending Integrys transaction. Furthermore, the structural shift in the company from a single-state, pure-play utility to a riskier business profile gives us pause about returning to a 10% premium. The five percent discount for TEG accretion is utilized to exercise additional conservatism as management navigates deal closing.

Wisconsin Energy Corp. (WEC.N)

Income statement (US$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Revenues	**4,486**	**4,246**	**4,519**	**4,638**	2.6	**4,707**	1.5	**4,796**	**4,884**	**4,973**
Gross profit	2,588	2,602	2,692	2,780	3.3	2,818	1.4	2,873	2,928	2,985
EBITDA (UBS)	**1,218**	**1,365**	**1,420**	**1,479**	4.1	**1,509**	2.1	**1,550**	**1,584**	**1,620**
Depreciation & amortisation	(330)	(364)	(388)	(415)	7.0	(407)	-1.9	(421)	(427)	(434)
EBIT (UBS)	**887**	**1,000**	**1,032**	**1,063**	3.0	**1,102**	3.6	**1,129**	**1,157**	**1,186**
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(236)	(248)	(252)	(257)	-2.0	(267)	-4.0	(265)	(268)	(281)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**652**	**752**	**780**	**806**	3.4	**834**	3.5	**865**	**889**	**905**
Tax	(264)	(306)	(338)	(350)	-3.4	(354)	-1.4	(365)	(374)	(380)
Profit after tax	**388**	**446**	**442**	**457**	3.4	**480**	5.1	**499**	**515**	**525**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	125	101	135	140	3.7	125	-10.9	125	125	125
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**513**	**546**	**577**	**597**	3.4	**605**	1.4	**624**	**640**	**650**
Net earnings (UBS)	**513**	**546**	**577**	**597**	3.4	**605**	1.4	**624**	**640**	**650**
Tax rate (%)	40.5	40.7	43.3	43.3	0.0	42.5	-2.1	42.3	42.1	42.0

Per share (US$)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
EPS (UBS, diluted)	2.18	2.35	2.51	2.63	4.7	2.68	1.9	2.78	2.86	2.92
EPS (local GAAP, diluted)	2.18	2.35	2.51	2.63	4.7	2.68	1.9	2.78	2.86	2.92
EPS (UBS, basic)	2.18	2.36	2.51	2.63	4.7	2.68	1.9	2.78	2.86	2.92
Net DPS (US$)	1.04	1.20	1.45	1.56	8.0	1.64	5.1	1.76	1.88	2.00
Cash EPS (UBS, diluted)[1]	3.58	3.91	4.20	4.46	6.1	4.48	0.5	4.65	4.77	4.88
Book value per share	16.87	17.94	18.55	19.39	4.5	20.20	4.2	20.99	21.74	22.44
Average shares (diluted)	235.40	232.78	229.68	227.00	-1.2	225.83	-0.5	224.65	223.48	222.31

Balance sheet (US$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Cash and equivalents	14	38	26	75	187.6	9	-88.3	139	238	339
Other current assets	1,412	1,276	1,525	1,544	1.2	1,553	0.6	1,567	1,581	1,594
Total current assets	**1,426**	**1,314**	**1,551**	**1,619**	4.4	**1,562**	-3.5	**1,706**	**1,818**	**1,933**
Net tangible fixed assets	10,160	10,572	10,907	11,159	2.3	11,530	3.3	11,697	11,887	12,060
Net intangible fixed assets	1,882	1,985	1,873	1,673	-10.7	1,573	-6.0	1,473	1,373	1,273
Investments / other assets	393	414	439	439	0.0	439	0.0	439	439	439
Total assets	**13,862**	**14,285**	**14,769**	**14,890**	0.8	**15,103**	1.4	**15,315**	**15,517**	**15,705**
Trade payables & other ST liabilities	662	637	617	628	1.8	632	0.6	639	647	655
Short term debt	703	807	880	737	-16.17	737	0.00	737	537	537
Total current liabilities	**1,365**	**1,443**	**1,496**	**1,365**	-8.8	**1,369**	0.3	**1,377**	**1,184**	**1,192**
Long term debt	4,614	4,454	4,363	4,447	1.9	4,497	1.1	4,547	4,797	4,847
Other long term liabilities	3,890	4,222	4,646	4,646	0.0	4,646	0.0	4,646	4,646	4,646
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**9,868**	**10,120**	**10,506**	**10,458**	-0.5	**10,512**	0.5	**10,570**	**10,628**	**10,685**
Common s/h equity	3,963	4,135	4,233	4,401	4.0	4,561	3.6	4,715	4,859	4,990
Minority interests	30	30	30	30	0.0	30	0.0	30	30	30
Total liabilities & equity	**13,862**	**14,285**	**14,769**	**14,890**	0.8	**15,103**	1.4	**15,315**	**15,517**	**15,705**

Cash flow (US$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Net income (before pref divs)	513	546	577	597	3.4	605	1.4	624	640	650
Depreciation & amortisation	330	364	388	415	7.0	407	-1.9	421	427	434
Net change in working capital	(22)	4	(59)	(8)	86.6	(5)	33.9	(6)	(6)	(6)
Other operating	153	252	313	200	-36.0	100	-50.0	100	100	100
Operating cash flow	**974**	**1,166**	**1,219**	**1,205**	-1.2	**1,107**	-8.1	**1,139**	**1,161**	**1,178**
Tangible capital expenditure	(831)	(707)	(687)	(668)	2.8	(778)	-16.5	(588)	(617)	(607)
Intangible capital expenditure	(103)	(31)	(61)	0	-	0	-	0	0	0
Net (acquisitions) / disposals	42	9	3	0	-	0	-	0	0	0
Other investing	0	0	0	0	-	0	-	0	0	0
Investing cash flow	**(892)**	**(730)**	**(746)**	**(668)**	10.4	**(778)**	-16.5	**(588)**	**(617)**	**(607)**
Equity dividends paid	(242)	(276)	(329)	(354)	-7.7	(370)	-4.6	(395)	(420)	(445)
Share issues / (buybacks)	(139)	(103)	(175)	(75)	57.1	(75)	0.0	(75)	(75)	(75)
Other financing	5	1	12	0	-	0	-	0	0	0
Change in debt & pref shares	265	(44)	(3)	(59)	-1,626.47	50	-	50	50	50
Financing cash flow	**(111)**	**(423)**	**(495)**	**(488)**	1.4	**(395)**	19.0	**(420)**	**(445)**	**(470)**
Cash flow inc/(dec) in cash	**(30)**	**14**	**(22)**	**49**	-	**(66)**	-	**131**	**98**	**101**
FX / non cash items	20	10	10	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**(10)**	**24**	**(12)**	**49**	-	**(66)**	-	**131**	**98**	**101**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Wisconsin Energy Corp. (WEC.N)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	14.3	15.8	16.5	16.9	16.6	16.0	15.5	15.2
P/E (UBS, diluted)	14.3	15.8	16.5	16.9	16.6	16.0	15.5	15.2
P/CEPS	8.7	9.4	9.8	10.0	9.9	9.5	9.3	9.1
Equity FCF (UBS) yield %	0.5	5.0	4.9	5.3	3.2	5.4	5.4	5.6
Net dividend yield (%)	3.3	3.2	3.5	3.5	3.7	4.0	4.2	4.5
P/BV x	1.8	2.1	2.2	2.3	2.2	2.1	2.0	2.0
EV/revenues (core)	2.8	3.3	3.3	3.3	3.2	3.2	3.1	3.1
EV/EBITDA (core)	10.3	10.1	10.4	10.4	10.1	9.9	9.6	9.4
EV/EBIT (core)	14.1	13.8	14.3	14.4	13.9	13.5	13.2	12.8
EV/OpFCF (core)	NM	21.0	21.2	19.0	21.0	16.0	15.8	15.1
EV/op. invested capital	1.4	1.5	1.6	1.7	1.7	1.6	1.6	1.6

Enterprise value (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Market cap.	7,343	8,565	9,537	10,137	10,137	10,137	10,137	10,137
Net debt (cash)	5,171	5,262	5,220	5,163	5,167	5,185	5,121	5,121
Buy out of minorities	350	378	403	403	403	403	403	403
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	**12,863**	**14,206**	**15,159**	**15,702**	**15,707**	**15,724**	**15,660**	**15,660**
Non core assets	(359)	(359)	(359)	(359)	(439)	(439)	(439)	(439)
Core enterprise value	**12,505**	**13,847**	**14,801**	**15,344**	**15,268**	**15,286**	**15,221**	**15,221**

Growth (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenue	3.1	-5.3	6.4	2.6	1.5	1.9	1.8	1.8
EBITDA (UBS)	14.1	12.1	4.1	4.1	2.1	2.7	2.2	2.3
EBIT (UBS)	16.6	12.7	3.2	3.0	3.6	2.5	2.5	2.6
EPS (UBS, diluted)	13.5	7.7	7.1	4.7	1.9	3.7	3.0	2.2
Net DPS	30.0	15.4	20.4	8.0	5.1	7.3	6.8	6.4

Margins & Profitability (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Gross profit margin	57.7	61.3	59.6	59.9	59.9	59.9	60.0	60.0
EBITDA margin	27.1	32.1	31.4	31.9	32.1	32.3	32.4	32.6
EBIT margin	19.8	23.6	22.8	22.9	23.4	23.5	23.7	23.9
Net earnings (UBS) margin	11.4	12.9	12.8	12.9	12.9	13.0	13.1	13.1
ROIC (EBIT)	10.2	11.2	11.5	11.7	11.9	12.0	12.2	12.4
ROIC post tax	6.1	6.6	6.5	6.6	6.9	6.9	7.0	7.2
ROE (UBS)	13.2	13.5	13.8	13.8	13.5	13.5	13.4	13.2

Capital structure & Coverage (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net debt / EBITDA	4.4	3.8	3.7	3.5	3.5	3.3	3.2	3.1
Net debt / total equity %	132.8	125.4	122.4	115.3	113.8	108.4	104.2	100.5
Net debt / (net debt + total equity) %	57.0	55.6	55.0	53.6	53.2	52.0	51.0	50.1
Net debt/EV	42.4	37.7	35.2	33.3	34.2	33.7	33.5	33.1
Capex / depreciation %	NM	194.1	177.1	160.8	191.0	139.7	144.5	139.9
Capex / revenue %	18.5	16.6	15.2	14.4	16.5	12.3	12.6	12.2
EBIT / net interest	3.8	4.0	4.1	4.1	4.1	4.3	4.3	4.2
Dividend cover (UBS)	2.1	2.0	1.7	1.7	1.6	1.6	1.5	1.5
Div. payout ratio (UBS) %	47.7	50.9	57.5	59.3	61.2	63.3	65.7	68.4

Revenues by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	4,486	4,246	4,519	4,638	4,707	4,796	4,884	4,973
Total	**4,486**	**4,246**	**4,519**	**4,638**	**4,707**	**4,796**	**4,884**	**4,973**

EBIT (UBS) by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	887	1,000	1,032	1,063	1,102	1,129	1,157	1,186
Total	**887**	**1,000**	**1,032**	**1,063**	**1,102**	**1,129**	**1,157**	**1,186**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	-0.9%
Forecast dividend yield	3.6%
Forecast stock return	+2.7%
Market return assumption	5.6%
Forecast excess return	-2.9%

Statement of Risk

Factors that could prevent Wisconsin Energy from achieving our earnings, cash flow, and/or price target objectives include, but are not limited to: (1) adverse weather conditions; (2) availability of and unscheduled generation outages or unplanned maintenance; (3) unanticipated changes in all matters related fuel procurement; (4) changes in state and / or Federal regulatory policy; (5) more stringent environmental legislation; (6) interest rate and / or capital market risk(s); (7) inability to achieve timely completion and reasonable recovery of power plants under construction; (8) continuation of labor relationships with unionized employees; (9) changes in accounting policies by the standard setting bodies; (10) economic conditions that affect both customer growth and demand, among others items; (11) regulatory challenges to its proposed acquisition of Integrys.

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UBS 12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	48%	33%
Neutral	FSR is between -6% and 6% of the MRA.	41%	30%
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UBS Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2014.
1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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UBS Securities LLC: Julien Dumoulin-Smith; Michael Weinstein; Paul Zimbardo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Wisconsin Energy Corp.[16]	WEC.N	Neutral	N/A	US$43.58	31 Jul 2014

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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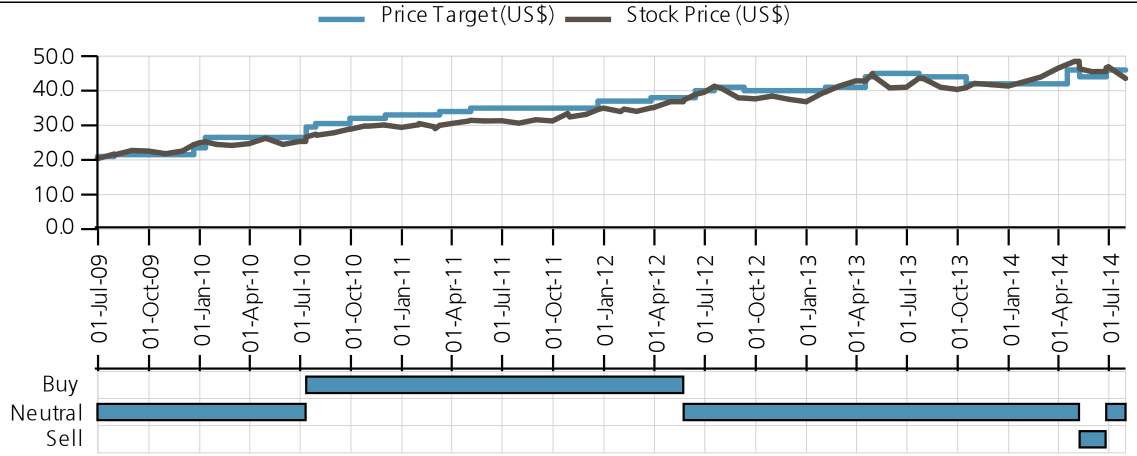
Wisconsin Energy Corp. (US$)



Source: UBS; as of 31 Jul 2014

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